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SUBJECT: ZHEJIANG ECONOMIC ENGINE STILL MOVING, BUT TRADE SECTOR  
STRUGGLING

REF: A) 08 SHANGHAI 521, B) SHANGHAI 23, C) 08 SHANGHAI 550

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¶1. (SBU) Summary: Zhejiang provincial officials remain upbeat on their largely private sector economy but acknowledged the growth rate is slowing. The province's 2008 GDP grew roughly 10 percent over 2007, and total exports and imports for 2008 were up 19.4 percent. When introducing economic targets for 2009, provincial officials said they still are committed to a strategy of "making the province strong through innovation and the people rich by fostering entrepreneurship" despite the economic slowdown. In contrast, Zhejiang Foreign Affairs Office (FAO) officials injected a bit of realism into the province's trade figures, noting that newly signed orders for goods have decreased by about 39 percent since the beginning of the global economic downturn. Separately, China Council for the Promotion of International Trade (CCPIT) Zhejiang Sub-council leadership said that many trade-oriented enterprises in the province are floundering, but FDI is relatively unaffected. End summary.

#### Zhejiang Officials on 2008 Economic Data

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¶2. (SBU) During a January 12 work report for foreign consulates in Shanghai, Zhejiang officials provided a relatively rosy report on the state of the province's economy. In 2008, GDP was roughly RMB 2.1 trillion (USD 308 billion), a 10 percent increase over 2007. Zhejiang's GDP accounts for roughly 9 percent of China's total GDP. Zhejiang has the fourth largest provincial GDP, behind Guangdong, Shandong and Jiangsu. Total fiscal revenue growth was 15 percent. Per capita disposable income of urban residents was RMB 22,727 (USD 3,340) and disposable income for rural residents was RMB 9,258 (USD 1,360), which represent a real increase of 5.4 percent and 6.2 percent respectively. Zhejiang's inflation rate for 2008 was 5 percent, and there were approximately 740,000 new jobs created in urban areas. Registered unemployment in urban areas was 3.5 percent, which represented the first rise in unemployment in the province in over 5 years. (In 2007, the unemployment rate was 3.2.) Government expenditure on R&D as a percentage of GDP was 1.6 percent.

#### Trade and FDI Still Growing

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¶3. (SBU) Zhejiang officials reported that the province has

direct trade links with more than 230 countries and regions of the world. Total exports and imports for 2008 were USD 211.17 billion, up 19.4 percent from 2007. Private enterprises are responsible for more than 70 percent of the province's exports. Foreign direct investment currently "in use" in the province amounts to USD 10.1 billion, and Zhejiang remains the fourth largest recipient of FDI in China. The number of approved foreign-invested companies doing business in Zhejiang totaled 42,000; among them 210 are Fortune 500 companies. According to the Zhejiang work report, the province is also the source of 18 of China's 50 "most independently innovative private enterprises."

#### Optimistic Targets for 2009

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¶4. (SBU) During the work report and in a subsequent media release, Zhejiang outlined its plan for handling the economic crisis. Zhejiang officials said the province's overarching goal remains "making the province strong through innovation and the people rich by fostering entrepreneurship" by addressing the "root causes of current problems and maintaining stability while promoting coordination." For 2009, the province has set the following targets: GDP growth of approximately 9 percent, local fiscal revenue growth of 6 percent, growth of per capita disposable income of urban residents and per capita disposable income for rural residents roughly 7 percent, inflation less than 4 percent, 600,000 new jobs in urban areas, less than 4 percent unemployment in urban areas, population growth less than 6 percent, and support for R&D equal to 1.7 percent of GDP.

#### FAO Injects a Bit of Realism

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¶5. (SBU) During a separate meeting with congenoffs on January 12, Zhejiang Foreign Affairs Office (FAO) Deputy Director Yu Siba recited the same GDP and trade figures; however, on trade

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numbers, he said that the majority of exports were from old orders. Newly signed orders have decreased by about 39 percent since the beginning of the global economic downturn. He also noted that the Central Government promised to spend roughly RMB 4 trillion to boost the economy, but the Central Government is actually only disbursing RMB 1.18 trillion. Local and provincial governments will provide the remaining amount. In comparison with Guangdong, Yu said Zhejiang is not as reliant on foreign trade, but the private sector makes up a bigger slice of the economy. In Zhejiang, private companies accounted for 70 percent of the economic volume, 50 percent of GDP, 90 percent of total employment and 70 percent of total profit.

¶6. (SBU) Yu added that the Chinese Government is paying particular attention to the plight of farmers, and noted a recent push to provide more equipment to the countryside. The Zhejiang Government is also concerned about rising unemployment and is closely monitoring factory closings and dismissal of employees. Companies are now required to report all lay-offs; however, if employee is released at the end of his or her contract, there is no need to report (ref A).

#### Zhejiang CCPIT Says Provincial Exports Are Suffering

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¶7. (SBU) Tie Jianshe, Chairman of the Zhejiang Chamber of Commerce and China Council for the Promotion of International Trade (CCPIT) Zhejiang Sub-council, also discussed the effect of the global economic crisis on Zhejiang and the province's response. (Note: Zhejiang CCPIT is the largest foreign trade organization in the province and is made up of a large networking system that includes representatives from every city and municipality. In total there are roughly 10,000 members.) Tie said that Zhejiang export sector is suffering greatly and cited his recent visit to Yiwu, home to China's largest "small commodities" market. Suppliers there told him that orders have dropped drastically in recent months. (Comment: During a

December visit, Yiwu officials had expressed optimism about the Yiwu economy. (ref B). End comment.) According to Tie, the United States is Zhejiang's largest and most important trading partner. As such, its exports have been most affected by the U.S. downturn.

18. (SBU) He added that the Zhejiang Government is actively engaged on how the province can "survive the economic winter." The Provincial Government plans to invest RMB 40-50 million (USD 5.8 to 7.2 million) as part of an economic stimulus package, mostly in infrastructure projects such as high speed rail and highway expansion. Tie projected that Zhejiang would be entirely linked by high speed rail within three years, reducing the maximum time required to travel between any two points in the province from four hours to three.

19. (SBU) In addition to increased investment in infrastructure, the province is responding by asking banks to give more loans to SMEs. According to Tie, Zhejiang foresaw the economic crisis at an early stage and had already requested and been approved for a RMB 14 to 15 billion (USD 2.03 to 2.17 billion) aid package from the Central Government. The money is being injected into local banks to encourage lending to SMEs. He said the real problem lies with local private sector firms that expanded too quickly and racked up unsustainable debt. As a result, it is difficult for them to get new loans. Local governments and business associations are also stepping in to help. As for U.S. investment in the province, nothing has changed according to Tie. There has not been any withdrawal of FDI, and investment levels continue at a normal level.

Comment: Why Zhejiang's Growth Matters

10. (SBU) Excluding Beijing, Shanghai and Tianjin, Zhejiang has the highest GDP per capita in China. Those are all cities; but earlier you say it has the fourth highest provincial GDP. What is remarkable about Zhejiang's wealth is that it was recently acquired and it has largely been built by private entrepreneurship, mostly small and medium sized enterprises. And unlike its neighbors Shanghai and Jiangsu, the Zhejiang Government has largely subscribed to a laissez-faire economic model. As result of its bottom-up entrepreneurial society, Zhejiang has achieved one of the highest per capita household

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incomes in China. However, Zhejiang has also been relatively hard hit by the economic downturn. Zhejiang's numerous small and medium size enterprises, many of which are dependent on exports, have been folding at a rapid clip. Unlike its neighbors, Zhejiang has been less able to reduce the bite of unemployment by ensuring state-owned enterprises stay afloat. For this reason, Zhejiang has injected a large amount of its stimulus package into local banks to encourage lending to SMEs (ref C). China's officials will undoubtedly watch closely how these measures take effect - and how Zhejiang's alternative, bottom-up economic model continues to perform.

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